ISSUE BRIEF

February 16, 2009

Results of the 2009 Baton Rouge Area Economic Outlook Survey

Baton Rouge Area Chamber®

Executive Summary

If there is a theme for the 2009 Baton Rouge Economic Outlook Survey, it is steady optimism from Baton Rouge area business leaders about growth in the area economy, business revenue, employment, and capital spending. While economic growth expectations are comparatively lower than previous surveys in 2007 and 2008, the business outlook for 2009 is optimistic compared to national surveys. Revenue, employment, and capital spending are expected to increase or remain steady in 2009 and throughout 2011. Obstacles facing area businesses in 2009 are the same as 2007 and 2008, namely finding qualified employees and traffic congestion. This year, many respondents included other business obstacles such as credit availability, government spending, and a sense that the media may be painting a bleaker economic picture than necessary.

1. Introduction

The global and national business environment in 2009 faces daunting uncertainty given a potentially longer and deeper recession than in any period since World War II. National economic forecasts for 2009 indicate business contraction, higher unemployment rates, and reduced capital expenditures across all industry sectors. Among regional economies, however, the Baton Rouge area has remained an economic bright spot in terms of employment, construction, and the housing market. For example, the December 2008 unemployment rate for the U.S. was 7.2%, while the Baton Rouge area unemployment rate was 5.3%. Furthermore, our area unemployment rate trailed the U.S. rate since the national recession began in December 2007.

The Baton Rouge Area Chamber (BRAC) and the *Greater Baton Rouge Business Report* recently conducted the 2009 Baton Rouge Area Economic Outlook Survey, an online survey of Baton Rouge area business leaders' attitudes concerning expected economic conditions for the next year and three-year timeframes. This survey was active for six weeks in December 2008 and January 2009. A total of 372 responses were received.

The survey was previously conducted in conjunction with the *Stanford Group Company's Baton Rouge Area Economic Forum: Insights for Action*. In 2009, the event has been moved to November in order to be better utilized by the region's businesses during their annual planning and budgeting processes. Although BRAC has moved the event through which the survey is traditionally reported, the survey was conducted in December 2008 and January 2009 to maintain a consistent schedule of capturing opinions and expectations of area business leaders, and to coincide with economic events of national and global scope.

The survey questions are grouped into three broad areas:

1. Demographics: business location, revenue, employee size
2. Expectations for business activity: Baton Rouge area economy, company revenue, employment, capital expenditures, insurance costs, and real estate rates
3. Obstacles, challenges, and trends with impact on business activity

2. Respondent Demographics

Out of 372 responses to the survey, the overwhelming majority of 89% came from East Baton Rouge Parish (Figure 1). Leaders of small businesses comprised the majority of responses (Figure 2); 88% of respondents were from businesses with less than 250 employees and 77% were from businesses with less than 100 employees.

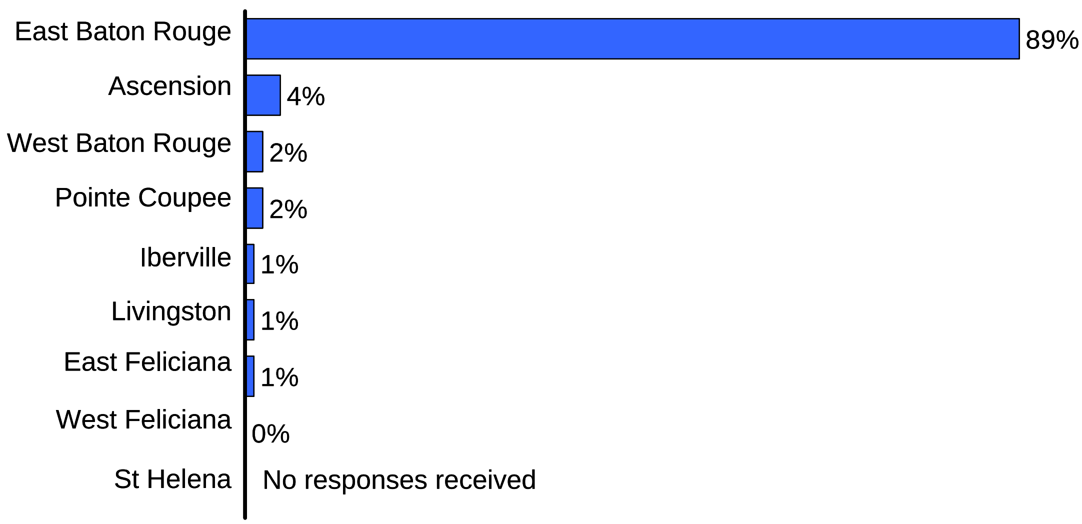


Figure 1. The distribution of survey responses by parish shows that the vast majority came from East Baton Rouge.

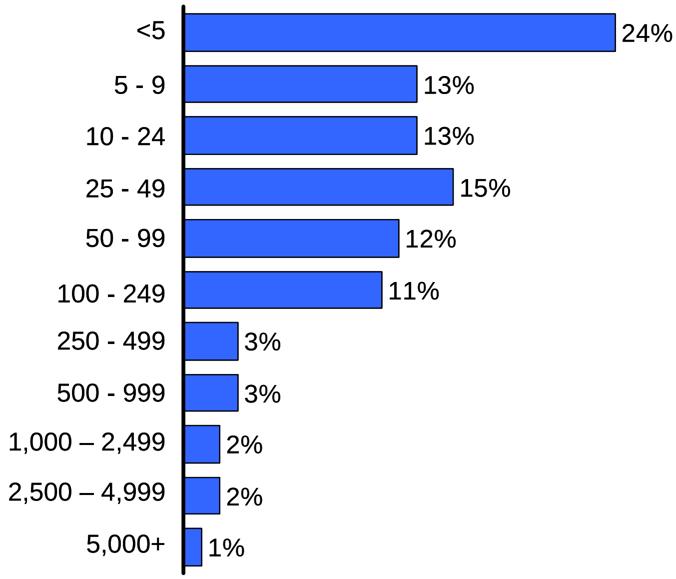


Figure 2. Eighty-eight percent of responses were from leaders of businesses with less than 250 employees.

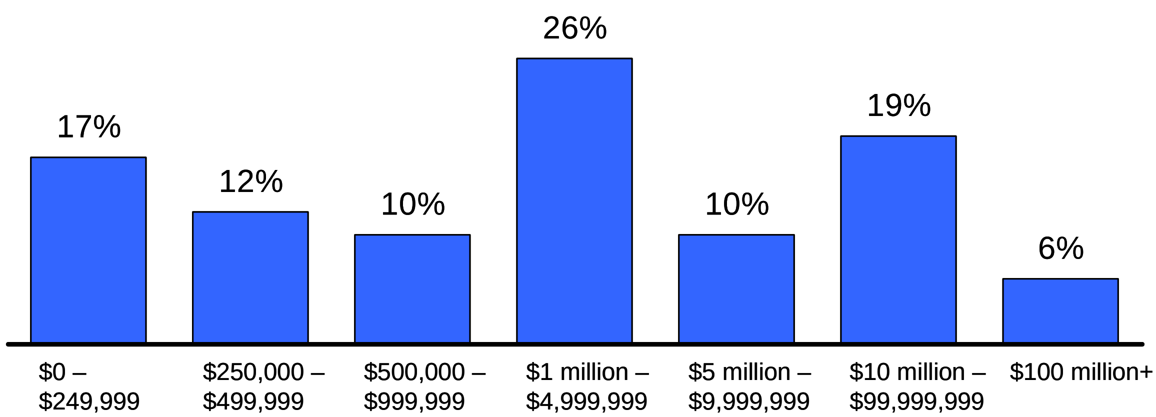


Figure 3. Businesses with varying annual revenue levels were well-represented in the survey.

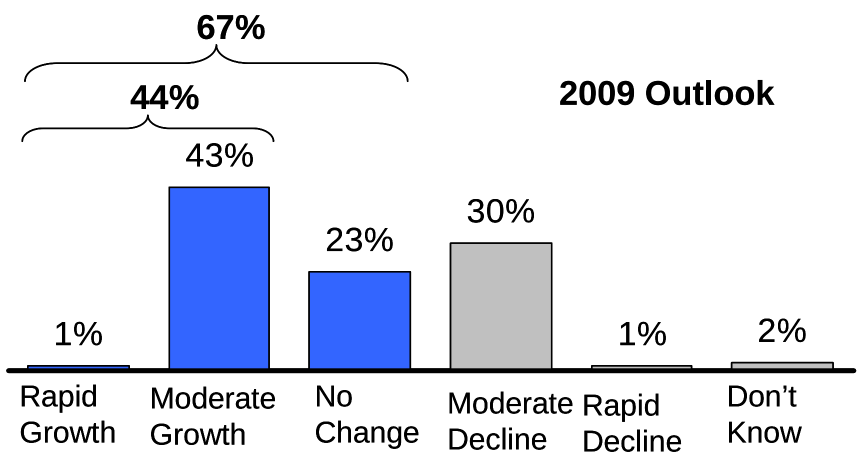
Unless otherwise indicated, years referred to in describing economic outlooks are calendar years. Numbers in text and graphs may not add up to totals because of rounding.

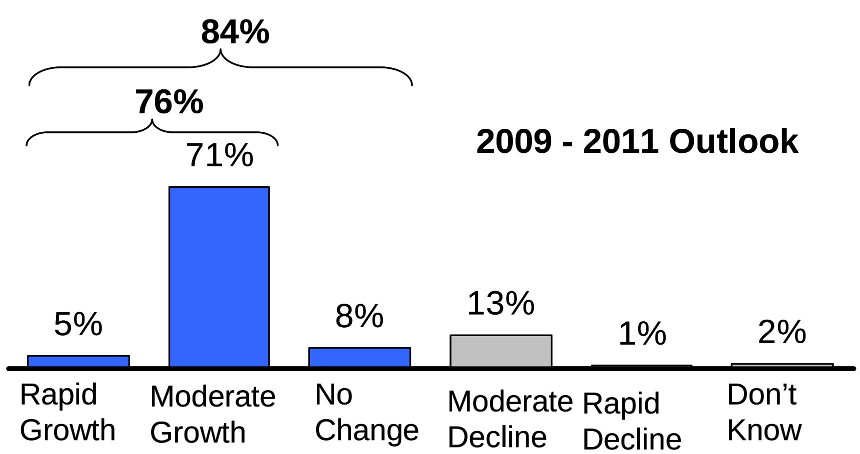
3. Expectations for Business Activity

Economic Outlook Questions:

- How do you expect the overall Baton Rouge economy to perform in 2009?
- How do you expect the overall Baton Rouge economy to perform in 2009 through 2011?

Results:





Analysis:

Baton Rouge area business leaders remain relatively optimistic about economic growth for 2009 and beyond. For 2009, 67% of business leaders do not expect a contraction in the overall Baton Rouge economy. That is a 2-to-1 margin of area business leaders expecting economic growth or stability to those expecting economic decline in the Capital Region. Of even more significance, 44% expect the Baton Rouge area economy to grow in 2009.

Looking out three years to 2011, over 84% of area business leaders anticipate economic growth or stability, compared to 13% expecting only moderate economic contraction. Within the next three years, 76% of Baton Rouge business leaders expect moderate to rapid economic growth. Thus, five times as many business leaders in the Baton Rouge area expect economic growth or stability as those that expect economic decline between 2009 and 2011.

This is an optimistic economic outlook for the Baton Rouge area compared to forecasts for the national economy. The Congressional Budget Office (CBO) forecasts a contraction in economic activity for 2009, with real gross domestic product (GDP) declining by 2.2%.[1] Furthermore, the CBO report expects tepid economic growth in 2010 with GDP increasing by 1.5%.

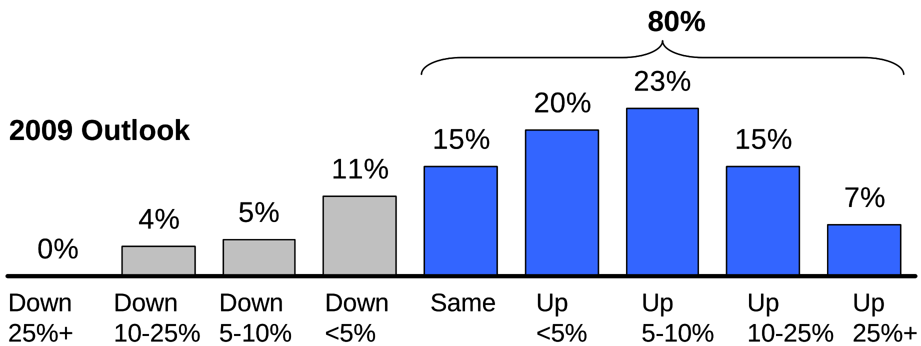
If the economic outlook by Baton Rouge area business leaders becomes a reality in 2009, then the Capital Region will continue to be an island of business strength compared the national economy.

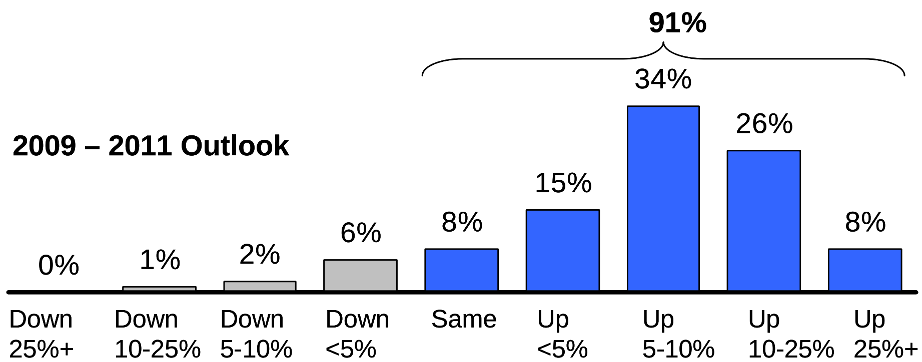
[1] US Congress, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 2009.

Revenue Growth Questions:

- What annual revenue growth do you expect for your company in 2009 (Baton Rouge area operations only)?
- What average annual revenue growth do you expect for your company in 2009 through 2011 (Baton Rouge area operations only)?

Results:





Analysis:

In 2009, 80% of Baton Rouge area business leaders expect revenue to increase or remain steady. It is remarkable that over three times as many business leaders expect revenues to grow (65%) as those expecting a decline in revenues (20%) in 2009. Of the 65% area business leaders expecting revenues to increase in the coming year, 22% of them expect rapid growth of revenues greater than 10% (7% expect an increase over 25%). This is in marked contrast to the 4% expecting rapid revenue declines, none of whom expect revenues to fall by over 25% in the coming year.

Looking further out to 2011, expectations for revenue growth are even more optimistic. Over 90% of area business leaders expect revenues to grow or remain steady in the next three years. Of that group, 83% expect revenues to increase, with 34% expecting revenues to grow by a healthy 10% or more. In contrast, only 9% of Baton Rouge area business leaders expect revenues to decline, with only 1% expecting revenues to fall by 10% or more.

These responses indicate that area leaders may expect the national recession to be short-lived and to have a minor negative impact on revenues in the next three years. The CBO expects that real consumption in 2009 will decrease by more than 1% and moderate growth of 1.6% will resume in 2010.[2] Rising unemployment, decreases in wealth, and tighter credit markets will be the primary factors affecting real consumption in the next two years. Furthermore, the Federal Reserve Bank of Atlanta expects consumer spending and personal income to remain constrained in the southeast region of the U.S. in 2009 until unemployment rates begin to fall.[3]

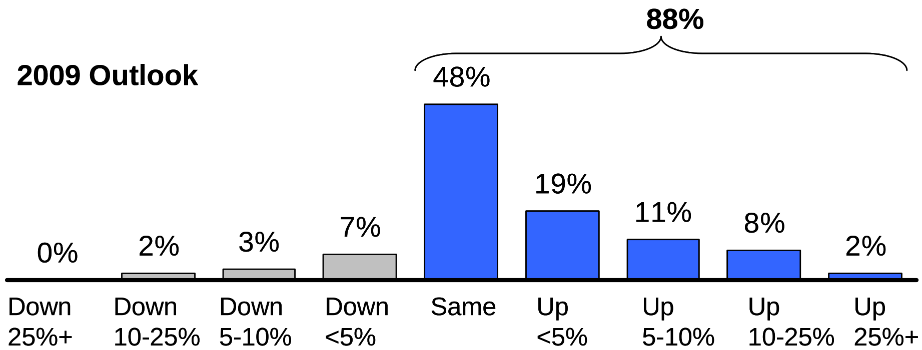
Compared to previous surveys conducted by BRAC, 65% of respondents expect revenue growth in 2009, compared to 90% in 2008 and 92% in 2007. Furthermore, 20% of respondents expect revenue to decline in 2009, compared to 3% in 2008 and 2% in 2007 surveys. In the next three years, 83% respondents expect revenue growth, compared with 94% in the 2008 survey.

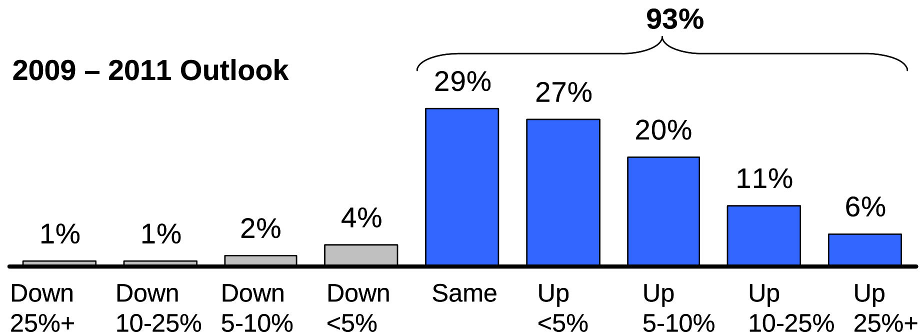
[2] Ibid.
[3] Federal Reserve Bank of Atlanta, “The Southeastern Economy in 2009”, EconSouth, Volume 10, Number 4, 2008.

Employment Questions:

- How do you expect your company's employment in the Baton Rouge area to change in 2009?
- How to you expect your company's average annual employment in the Baton Rouge area to change in 2009 through 2011?

Results:





Analysis:

Baton Rouge area business leaders appear optimistic about preventing drops in employment levels in 2009. In the coming year, 40% of area business leaders expect employment to increase and 48% expect employment levels to remain the same. This is seven times more than business leaders who expect employment levels to decrease this year.

Looking ahead towards 2011, the forecast is more positive with 93% of business leaders expecting employment levels to increase or remain steady. Furthermore, 64% of respondents expect employment growth between 2009 and 2011. The number of business leaders expecting employment declines in that timeframe is 8%.

There was a general correlation between revenue and employment growth outlooks among respondents. The outlook for employment growth was higher among those respondents forecasting higher revenue growth. Among the group of respondents expecting no changes or a decline in revenue, the predominant employment outlook was for no change. Business leaders expecting revenue growth also expect employment growth while those business leaders expecting revenue stasis or decline also expect to keep employment levels constant.

Furthermore, employment is often referred to as a lagging economic indicator. If the majority of expectations for revenue growth materialize and employment levels remain steady, then area businesses can expect to weather the national recession very well given the implied increase in worker productivity.

In contrast, the national employment outlook is less optimistic. At the end of December 2008, the national unemployment rate reported by the Bureau of Labor Statistics stood at 7.2% (the Baton Rouge area rate was 5.3%). The CBO report forecasts the unemployment rate to reach 8.3% in 2009 and 9.0% in 2010.[4] In addition, the Federal Reserve Bank of Atlanta projects unemployment rates in the southeast region of the U.S. to increase throughout 2009 as uncertainty remains high about consumer spending, income, and energy prices.[5]

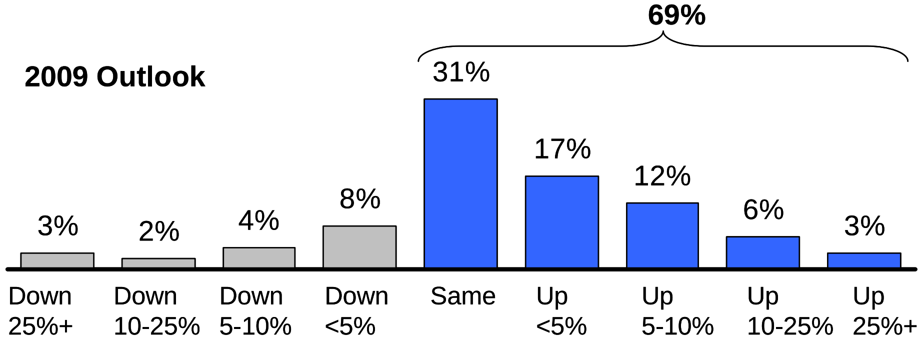
Compared to previous surveys, 40% of respondents expect employment growth in 2009, while nearly half expect to maintain employment at current levels. This is a drop from 2008 where 65% of respondents expected annual employment growth. Furthermore, 12% of respondents expect employment declines in 2009 compared with 4% in 2008. While there is a slight shift towards expected employment declines, the data indicates that business leaders expect employment levels to remain somewhat stable in the coming year.

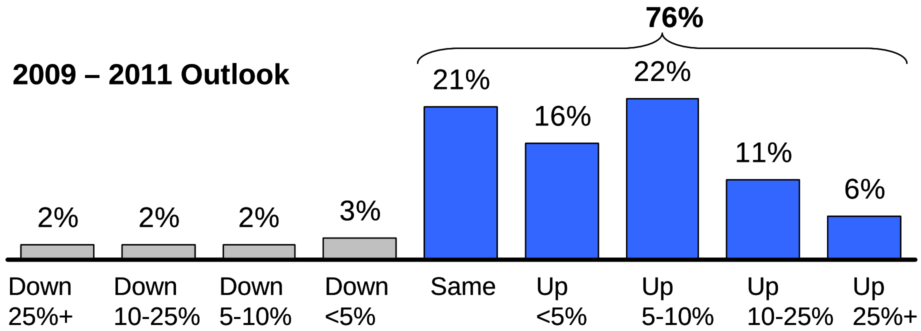
[4] US Congress, Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 2009.
[5] Federal Reserve Bank of Atlanta, "The Southeastern Economy in 2009", *EconSouth*, Volume 10, Number 4, 2008.

Capital Expenditure / Investment Questions:

- If applicable, how do you expect your capital expenditure/investment to change in 2009 (Baton Rouge area operations only)?
- If applicable, how do you expect your average capital expenditure/investment to change in 2009 through 2011 (Baton Rouge area operations only)?

Results:





(Sixteen percent of respondents indicated these questions were not applicable to their businesses and are not included in the figures above.)

Analysis:

The outlook for capital spending is similar to the aforementioned employment outlook. In 2009, 69% of business leaders expect capital spending to increase or remain the same as 2008. Of that group, 38% expect to increase capital spending in the Baton Rouge area in 2009. Only 17% expect to decrease capital expenditure in the coming year.

In the next three years, the outlook for capital spending is even more optimistic. Three quarters of the respondents expect capital spending to remain the same or increase. Of that group, over half (55%) of business area leaders expect to increase capital spending between 2009 and 2011; 17% of them expect that growth to exceed 10% of 2008 levels.

In stark contrast, national outlooks regarding capital expenditures are much more pessimistic for 2009:

- The National Association of Business Economists January 2009 Industry Survey found that more respondents reported decreased capital spending than those reporting increased spending in the fourth quarter of 2008. Furthermore, only 16% of respondents expect increased capital spending in 2009 (none expect increases greater than 10%), whereas 44% expect capital spending to decline in the next twelve months.
- In a Bank of America survey, only 20% of manufacturing CFOs expect capital expenditures to be higher in 2009 compared to 2008. Forty percent expect capital spending to be less or eliminated altogether in 2009.[6]
- An Institute for Supply Management (ISM) survey shows manufacturing industries expect capital expenditures to decrease by 6.7% in 2009.[7] The same ISM survey shows non-manufacturing industries expect capital expenditures to decrease by 8.4% in 2009.

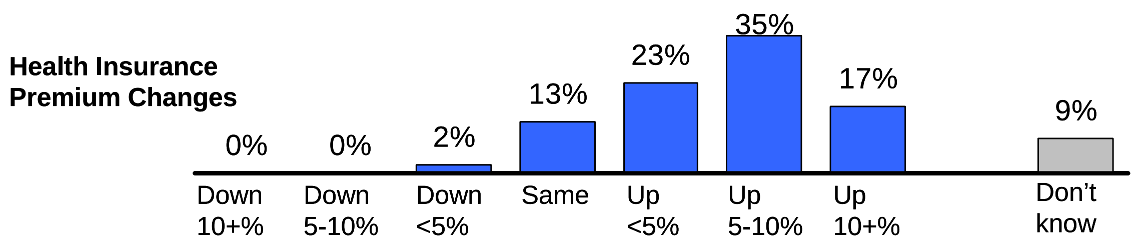
Capital expenditures can be considered a more concrete predictor of economic outlook than revenue and employment estimates for the coming year. The reason is that capital expenditures are planned further in advance and with greater budgetary rigor than revenue estimates or employment. Thus, the optimistic forecast of increased capital expenditures by Baton Rouge area business leaders may be a leading indicator of general optimism in the area economy for the next three years. Since capital expenditures are, however, correlated with credit markets, the optimistic outlook of Baton Rouge area business leaders may shift during the coming twelve months if credit markets continue to seize.

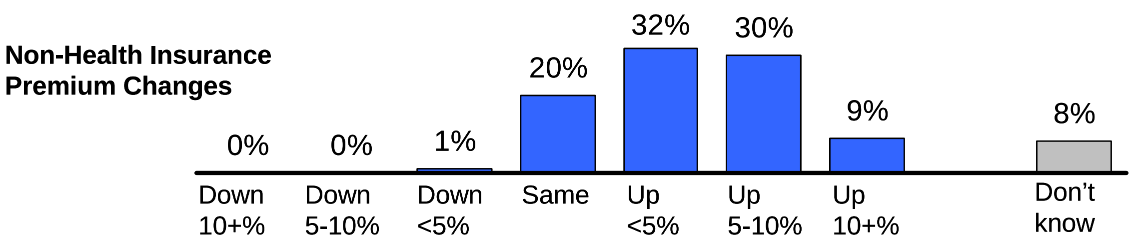
[6] Bank of America, 2009 CFO Outlook: A Survey of Manufacturing Company CFOs.
[7] Institute for Supply Management, Business Survey Committee, "Economic Slowdown to Continue in 2009", Released December 9, 2008.

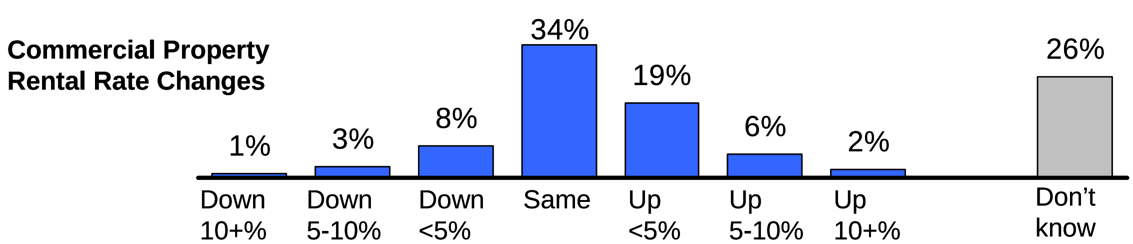
Insurance and Property Questions:

- What change in health insurance premiums do you expect in 2009 relative to 2008 (Baton Rouge area only)?
- What change in other (i.e., non-health) insurance premiums do you expect in 2009 (Baton Rouge area only)?
- How do you expect your 2009 commercial property rental rates in the Baton Rouge area to compare with 2008 rates?

Results:







Analysis:

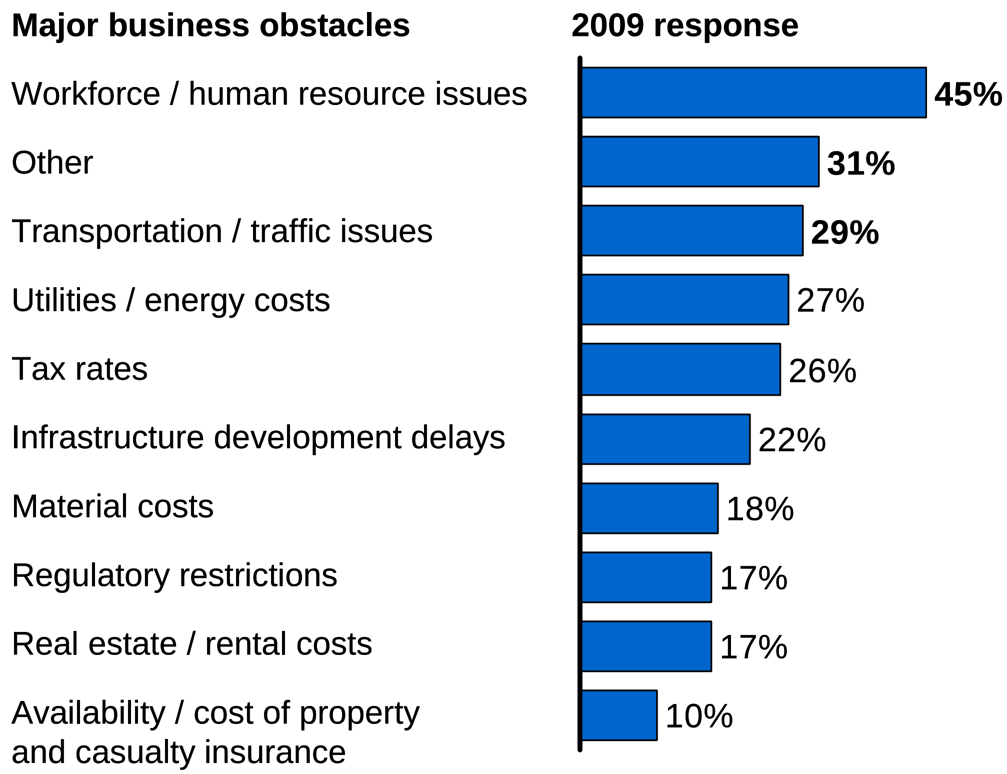
As might be expected, the majority of respondents expect insurance premiums to increase in 2009 (75% for health insurance and 71% for non-health insurance premiums).

With respect to commercial property rental rates, 27% of respondents expect rates to increase, while 12% expect them to fall and 26% are unsure what changes will occur in property rental rates in the coming year. This last figure, while surprisingly high, may indicate that respondents are not affected by property lease rates in the coming year because their lease terms extend beyond 2009 or their businesses are located in owner-occupied property.

4. Obstacles, Challenges, and Trends

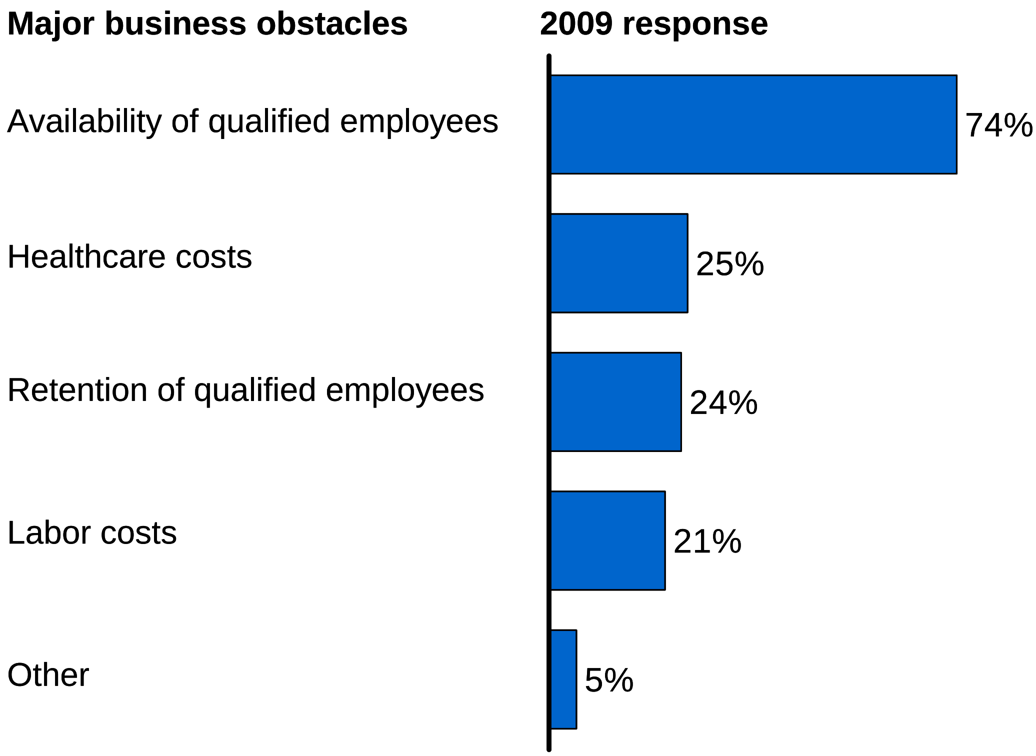
Question:
Which obstacles are negatively impacting your business (Baton Rouge area operations only?) Please select all that apply.

Results:



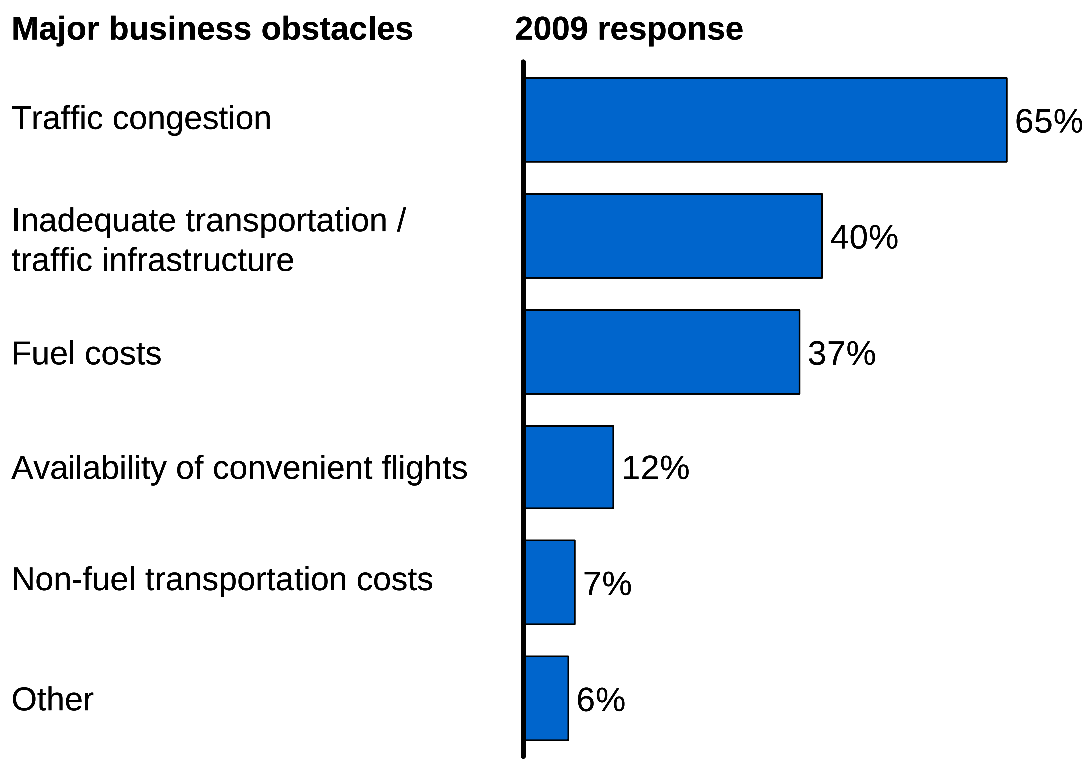
Follow-on question, if "Workforce / human resource issues" was chosen as an obstacle (respondents could choose all that applied):
What is the biggest workforce obstacle impacting your business (Baton Rouge area operations only)?

Results:



Follow-on question, if "Transportation / traffic issues" was chosen as an obstacle (respondents could choose all that applied):
What is the biggest transportation obstacle impacting your business (Baton Rouge area operations only)?

Results:



Analysis:

Similar to previous surveys in 2007 and 2008, workforce and human resource issues continue to be leading obstacles for respondents (45%). Among the specific workforce and human resource issues facing respondents, 74% indicate that finding qualified employees is the leading business obstacle.

The category "Other" ranked as the second leading business obstacle in 2009, and respondents were asked to specify. A myriad of specific responses were received with several falling into categories related to credit availability (for both customers and businesses), impressions that the media is being overly pessimistic in covering the economy, and potentially wasteful government spending. Some specific responses indicative of these issues include:

- “Government spending too much”
- “Government intervention with lots of wasteful spending”
- “Slowing economy, tight credit market for investment”
- “Consumer and investor fear, driven by a "sky is falling" national media”
- “Lack of lending capital”
- “Negative local and national press, report on positives too!”

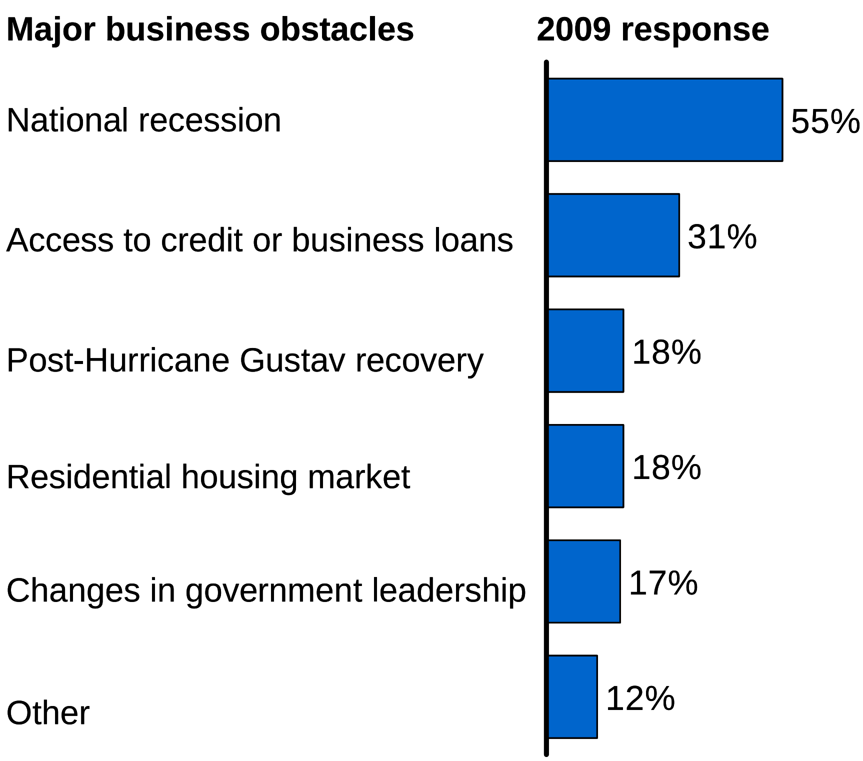
Unlike its second place ranking in 2007 (47%) and 2008 (47%), transportation issues were the third biggest business obstacle expected in 2009 for 29% of respondents. Traffic congestion is the leading specific obstacle for 65% of respondents.

This section of this year’s survey was different from the previous surveys in 2007 and 2008 in two significant ways. First, transportation obstacles were ranked lower than previous year surveys by almost twenty percentage points. The higher ranking of “Other” and the associated responses indicate potential new obstacles to track in future surveys. Credit availability is a prime example.

The second difference is that three questions were restructured in this section. Workforce and transportation were broken out as separate follow-on questions for two reasons: the set of answers for the original question was becoming too long, and there was a need to increase the flexibility with which responses about workforce and transportation obstacles were solicited.

Question:
What local and/or national trends will have the greatest impact on your business' success in 2009?

Results:



Analysis:

Perhaps not surprising, most respondents (55%) indicate that the national recession is the trend with the greatest impact on the success of their business in 2009. This is followed by access to credit and business loans for 31% of respondents. Given the Baton Rouge area's rapid recovery from Hurricane Gustav and the relative strength of the local residential housing market compared to other regions, it is not surprising that business leaders are more focused on issues closely related to moving their businesses forward in 2009.

5. Conclusions

- Responses indicate that Baton Rouge area businesses appear to be focused on maintaining a strategy of steady optimism with respect to business activity over the coming year.
- Forty-four percent of Baton Rouge area business leaders expect the Baton Rouge area economy to grow or remain at 2008 levels throughout 2009. Furthermore, over 75% of respondents expect economic growth in the Baton Rouge area in the next three years.
- Baton Rouge area business leaders are remain optimistic about their businesses in 2009 compared to 2008:
  - Eighty percent forecast revenue to remain steady or grow
  - Eighty-eight percent expect employment levels to remain steady or grow
  - Sixty-nine percent expect capital spending to remain at 2008 levels or grow

  Compared to survey responses in 2007 and 2008, there is a decrease in expectations for growth in revenue, employment, and capital spending in 2009, but expectations for growth are still significantly larger than expectations for decline.
- Looking towards 2011, area business leaders are also optimistic about business activity:
  - Ninety-one percent expect revenue growth or stasis
  - Ninety-three percent expect employment levels to remain steady or grow
  - Seventy-six percent expect capital spending to remain steady or grow
- A qualified workforce and transportation congestion remain primary obstacles for Baton Rouge area businesses, similar to 2007 and 2008. However, area leaders also report that credit markets, government spending, and overly negative media reporting about the economy are also obstacles to business activity.
- The general trends expected to affect business success in 2009 are the national recession and availability of credit and business loans. Recovery from Hurricane Gustav and residential housing concerns are a distant concern.